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SUBJECT: AMBASSADOR DISCUSSES ARGENTINE POLITICS WITH
POLITICIAN LOPEZ-MURPHY

Classified By: Ambassador E. Anthony Wayne for reasons 1.4(d)

¶1. (U) Summary: The Ambassador met May 12 with conservative politician Ricardo Lopez-Murphy, who came in third place in the 2003 presidential election but only in seventh, with one percent of the vote, in 2007. Lopez-Murphy shared his views on Argentina's current political and economic situation. He criticized decades of misguided economic policy at the hands of interventionist populists from across the political sector, including the Kirchners, but he spared no criticism for the opposition's (including his own) failure to unite and to win popular support for a sustained, long-term, orthodox policy framework for the country. He also claimed Argentina's business elite, wedded to protectionist practices and an uneven playing field, was opposed to true reforms that would open the market up to competition. He decried dependence on Chavez as Argentina's "broker" and signaled four big challenges for the Kirchners: the farm strikes, energy shortfalls, inflation, and mega-projects. End summary.

Economics 101

¶2. (SBU) Ambassador Wayne met May 12 with politician Ricardo Lopez-Murphy in his office. Lopez-Murphy started by arguing that many of the economic reforms in Argentina from the mid-1980s to the 21st century were successful, even with shortcomings and difficulties, but most Argentines did not understand how successful and profound reforms had been. Lopez-Murphy said there is a very dangerous misunderstanding of the role of the "invisible hand" in the market. He said there are three issues to consider in a democracy -- culture, institutions, and a basic understanding of economics. In the U.S., he thought the average citizen had a better understanding of economic fundamentals or at least of the positive role of the market mechanism, and this understanding was a key factor in America's economic growth and development. Citing one of his former economics professors, Lopez-Murphy noted that a command and control model (like the one the Kirchners employ) was okay for the military, but that it did not work for the economy. This is what many of Argentina's leaders and people just don't get.

The Problem with Shortcuts; Dependence on Venezuela

¶3. (SBU) Lopez-Murphy called the recent internal elections in his former party, Recrear, a "tragedy". The Ambassador mentioned that he had read about a judge's recent decision to declare internal party elections in Recrear null. (Note: Lopez-Murphy resigned on April 19 from Recrear -- the party he founded six years ago -- because he believed there was fraud in the party's internal elections held in April.) Lopez-Murphy said it was striking how even in such a small party, "we suffer from the culture of Kirchnerism." Kirchnerism, as Lopez-Murphy explained it, was constantly obviating the rules in search of shortcuts to achieve its

ends. Lack of transparency and integrity are serious problems across the political spectrum. He worried that some of Recrear's leaders were resorting to shortcuts that would irreparably damage the party's credibility.

14. (SBU) He also cited former president Nestor Kirchner's decision to default on debt as an emblematic "shortcut" for which Argentina was still paying a steep price. Kirchner thought he could escape IMF advice and council but he only got more limited options. Ambassador Wayne observed that this particular shortcut made Argentina dependent on certain sources of refinancing. Lopez-Murphy agreed, but noted that Chavez had become not a financier but a "broker" for Argentina. He explained that Chavez was making a significant profit from buying and selling Argentina's bonds, and the Kirchners had put themselves in the position of not having any other options.

Opposition Unity?

15. (SBU) The Ambassador asked how hard Lopez-Murphy thought it would be for the opposition to become more effectual. Lopez-Murphy said he believes that the opposition can strengthen and unify because the Kirchners are weakening. Lopez-Murphy said that if the opposition can defeat the government in the 2009 legislative elections, the Kirchners "will be lost" and it will create a new dynamic and synergy. The opposition's main problem is lack of leadership. He noted that presidential runner-up Elisa Carrio was no longer insulting others in the opposition, an improvement from her previous tactics. Lopez-Murphy said that he has the advantage of "no expectations" -- he said that he can help the opposition not by being a candidate, but by playing a

behind-the-scenes role. He believes there is a small chance to unify the parties, citing specifically himself, Carrio, and the Radical Party (UCR). However, in a separate chat May 14, Lopez-Murphy told the Ambassador it is just as likely that a new leader could emerge from the Peronist party to succeed the Kirchners. At present, Daniel Scioli, governor of Buenos Aires province, is the most likely to fill that role.

16. (SBU) The Ambassador asked whether Lopez-Murphy thought Elisa Carrio could work with others in the opposition. Lopez-Murphy said that she understands the division of powers and checks and balances, but that she is at a disadvantage because she does not understand economics. He said her biggest strength is her integrity. Lopez-Murphy noted her move from the political left towards the center as a positive development. He acknowledged that he has doubts about her ability to work within a complex system. Lopez-Murphy argued that the first step for the opposition would be to win the 2009 legislative elections.

City Boss Macri Questionable

17. (SBU) The Ambassador asked what role Lopez-Murphy saw for Buenos Aires mayor Mauricio Macri in the development of a political opposition. Lopez-Murphy said it was difficult to unite with Macri because of his linkages with other sectors. (Macri is linked with the current president of Recrear, Esteban Bullrich, who won the party presidency in the controversial internal elections mentioned in para three.) Lopez-Murphy said that today he could no longer be the bridge between Macri and the Civic Coalition that he was in the past because of a lack of trust. Lopez-Murphy also opined that Macri had been co-opted by the Kirchners and that since Macri had betrayed him in the 2007 elections, he had no trust in Macri.

Crony Capitalism

18. (C) Lopez-Murphy said one of the country's biggest difficulties is overcoming the pervasive crony capitalist

culture. In the case of the city government of Buenos Aires, he cited the gaming industry, and Macri's failure to block the Kirchners' sweetheart deals in the capital for casino concessionaire Cristobal Lopez. Lopez-Murphy said he could not understand the city government's silence on this matter. PolCouns pointed out allegations that Felipe Sola lost his job as governor of Buenos Aires because of his efforts to block Lopez's incursion into the province of Buenos Aires, and Lopez-Murphy asserted that this was a risk worth taking. He said crony capitalism had overtaken Argentina's business elite, which was comfortable with a contrived system rigged in its favor and had refused to help fund his 2003 campaign for fear that Lopez-Murphy would open up the market to competition. Sadly, this fear of real competition and the tendency to look to the state for special deals characterizes most local business leaders.

Taking it to the Streets

¶9. (SBU) Lopez-Murphy said "control of the streets" would be crucial for the Kirchners. The Ambassador observed that the lack of strong institutions that can mediate conflict could drive people to the street. Lopez-Murphy agreed and added that Argentines have been encouraged to take their grievances to the street by government tolerance and use of street protesters in recent years. He cited the recent agricultural strike as evidence that the farmers were learning that this technique works. Lopez-Murphy stressed the need to rebuild the state's ability to maintain order -- observing that a good, stable government would need police support -- but acknowledged that it would not be easy.

Economy: Strong but...

¶10. (SBU) The Ambassador asked for Lopez-Murphy's views on the economic situation. Lopez-Murphy commented that Argentina's external economic parameters were extremely positive. He said commodity prices were at a historic high and the low interest rates were a boon for an indebted country. He said that a weak dollar was also beneficial to Argentina, and that Brazil's strong economic performance was advantageous for Argentina. Lopez-Murphy nevertheless said that "we will drown in a cup of tea" because having a crisis with those statistics is "unbelievable."

Farmers, and Energy, and Inflation, Oh My!

¶11. (SBU) Lopez-Murphy outlined four main challenges for the government: the farmer strikes, energy shortfalls, inflation, and ill-advised mega projects. On the rural sector conflict, he said that if the conflict lasts, the government will suffer through lost revenues, negative external perceptions, and an internal crisis of confidence. Lopez-Murphy said the problem was easy to fix if the government would return to its pre-March 10 tax regime, but that Nestor Kirchner refused because he believed it would demonstrate a weakness on his part.

¶12. (SBU) Lopez-Murphy noted that the energy problems depend on the winter weather; the colder it is, the more problems the administration will have. Lopez-Murphy said the government was "making as many mistakes as it can" in energy policy. He called their policy "crazy in the short-term, and suicide in the long-run". Lopez-Murphy said that the government was promoting activities with no resources to sustain them. The Ambassador observed that most Argentines don't see a connection between the prices they pay for energy and the energy crisis.

¶13. (SBU) Lopez-Murphy estimated that inflation was hovering between 25-30 percent. He did not think it would skyrocket, but did say that the inertia established will be difficult to erase. Once inertia is there, he said it takes a long time to reduce it. By way of example, Lopez-Murphy said that at

the end of the 1970s in the United States, Paul Volcker resorted to shock therapy to confront 10% inflation, and was willing to withstand four years of recession to break the inflationary cycle. Lopez-Murphy said that the government needs 3-4 years of capable policies to combat inflation. Lopez-Murphy said the average inflation rate for Argentina from 1947 to 1974 was 28%.

¶14. (SBU) Lopez-Murphy cited the "bullet train" mega project signed with Alstom as a great waste of money that won't serve the common people and will leave Argentina's rail system with many failings. Several more comprehensive and better rail reform packages were available.

Historical Perspective

¶15. (SBU) Lopez-Murphy explained Argentina's economic situation by returning to the 1950s. He said that after World War II, Argentina believed it had to brace for the possibility of World War III. It was for this reason that they decided to close off their economy -- to protect it from any external shocks. He said Argentina bet that the world would go in one direction, and it didn't. Countries like Chile and Peru made similar mistakes, but Lopez-Murphy says they acknowledged their mistakes and changed direction, unlike Argentina. Lopez-Murphy argued that the current government has returned to the protectionist mindset, but while he could understand the rationale in the 1950s, he cannot understand the logic now.

Comment

¶16. (C) Lopez Murphy is a well-organized, cohesive, and intelligent interlocutor. He is clearly passionate about addressing Argentina's problems and challenges. His recent electoral loss, in which he finished seventh and won less votes than some protest and regional candidates, and the failure of the party he founded have hurt his chances at being a visible political player -- a state of affairs that Lopez-Murphy himself acknowledges. He does not have a mass following, but he remains a totemic center-right figure for the chattering classes. His optimism on the uniting potential of the opposition may be premature, as party divisions still weigh heavy across the board. He has begun publishing commentaries on the mass-circulation daily Clarin and says he hopes to extend his influence by regularly offering such op-eds. End comment.

Bio Note

¶17. (SBU) Lopez-Murphy -- known for his honesty and transparency -- suffered a major blow in the 2007 presidential elections where as a candidate he only carried 1% of the popular vote. (Note: In the first round of the 2003 presidential elections, Lopez-Murphy came in third (after Carlos Menem and Nestor Kirchner), with 16% of the popular vote.) Shortly after his seventh place finish in the October 2007 elections, he resigned as party president. Lopez-Murphy recently made headlines by resigning his party membership in Recrear (the party he founded in 2002) on April

¶19. Since then, Lopez-Murphy has been candid about his future plans and has denied that he will found a new party. Although Lopez-Murphy has adopted a lower profile, he has an active presence online through his blog (<http://www.bullblog.com.ar>) where he regularly posts links to articles he has written. He also has his own page on YouTube where he posts video interviews <http://www.youtube.com/profile?user=Bulltv>).

¶18. (U) Lopez-Murphy served as Minister of Defense (1999-2001) and as Minister of Economy (2001) under the De la Rúa administration. He became a key center-right opposition voice after coming in third in the 2003 presidential

elections. Although he affirmed that opposition forces should allow President Nestor Kirchner's administration time to build its power base, he declared that his party would provide "constructive and vigorous" opposition to protect governability, stand for institutions, and fight against corruption. Lopez-Murphy portrays himself as an alternative to traditional Argentine politicians eschewing populist appeals and strident partisanship, stating that he means change and that he aims to create a new political space, according to press reports. The U.S.-educated economist, one of Argentina's top financial experts, has an orthodox economic philosophy -- press reports describe him as a "fiscal hawk" -- and international financial experience. He has earned himself the nickname "bulldog" because of his appearance and the aggressiveness he uses in defending his positions and criticizing his rivals.

¶19. (U) Lopez-Murphy was born on August 10, 1951 in the capital of Buenos Aires. His father was a Radical Civic Union (UCR) party leader in La Plata and had been a national deputy and head of the Buenos Aires provincial police during the 1960s. Lopez-Murphy himself was named after two members of the UCR pantheon, Ricardo Balbin and ex-President Hipolito Yrigoyen. As a student in the 1960s, Lopez-Murphy was active in the left-of-center UCR university wing. By the 1970s, Lopez-Murphy began distancing himself from the Radical youth. He earned a bachelor's degree in economics from the University of La Plata in the province of Buenos Aires and a Master's in economics from the University of Chicago (1974). He did additional work there for a doctorate, but did not complete the degree.

¶20. (U) Upon his return to Argentina in 1975, Lopez-Murphy started his public service in the Economy Ministry. In the late 1970s he ran the Ministry's Bureau of Fiscal Research and Analysis. Lopez-Murphy left the Ministry in 1983 to serve as advisor to the Uruguayan Central Bank for the next five years. He has advised previous UCR gubernatorial and presidential campaigns. He also has been a consultant to the IMF, the UN, the World Bank, the UN Program for Development, and ECLAC. Lopez-Murphy was a professor of economic policy at the University of La Plata (since 1980) and public finance at the University of San Andres (since 1992). In 1992, he also served as chief economist at FIEL (Latin American Research Foundation), where he remained until joining the government in 1999.

¶21. (U) Lopez-Murphy is married to the former Norma Ruiz Huidobro and has three children, two of whom are studying in the United States. He has published several books on economic issues, including Argentina and Brazil in Mercosur. His articles have also been published in Monetary (Mexican publication) and Revista de Economia (Uruguayan publication). In his spare time, he enjoys playing tennis with his children, walking, and biking with his wife, swimming, and reading political history. Lopez-Murphy speaks English fluently.

WAYNE